

Petrobank Energy and Resources Ltd.



1994 Annual Report

Winspear Business Reference Room
University of Alberta
1-10 Business Building
Edmonton, Alberta T6G 2G6

ANNUAL MEETING

The Annual General Meeting will be held on Thursday, June 8, 1995, at 10:00 a.m. in the Main Boardroom, Suite 3400, 707 - 8th Avenue S.W., Calgary, Alberta.

Shareholders are cordially invited to attend the Company's Annual General Meeting, and those unable to do so are requested to complete and return the Proxy Form to Montreal Trust Company of Canada, Corporate Trust Department, 411 - 8th Avenue S.W., Calgary, Alberta, T2P 1E7.

CONTENTS

Letter to the Shareholders	Page 2
Operations Overview	Page 4
Financial Statements	Page 6
Corporate Information	Page 15

LETTER TO THE SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to present this our first annual report. Petrobank fulfilled all the listing requirements with the Alberta Stock Exchange in August, 1994 when its major transaction under Junior Capital Pool (JCP) requirements received final approval for full listing privileges.

The Company now has interests in three producing gas wells in Central Alberta and is focusing full attention on Alder Flats, its core area in West Central Alberta. Petrobank is operator of a program designed to develop proven and probable gas and LPG reserves in the Rock Creek formation while exploring multiple targets above and below the Rock Creek. This program is being financed by a pre-purchase of gas in the ground recently negotiated with a large fertilizer company. Since year end the Company has acquired an additional five sections of land in the area and is aggressively seeking to further expand its position.

During 1995 the Company expects to prove up and develop significant gas and liquid reserves, and cash flow at Alder Flats. The Company also should own and control its own gas processing facilities and marketing in the area.

On the financial front, the Company is attempting to attract long term investment for the development of its core properties and acquisition of reserves by direct purchase or corporate acquisition. In addition, the Company will attempt to launch a large target exploration program later in 1995 or early 1996 financed by outside sources of funds.

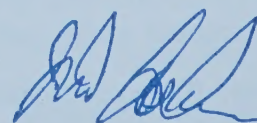
Some companies have adopted a policy of pursuing either oil or gas. Our view is that as a result of deregulation of natural gas, the movement to deregulation of utilities, including electrical utilities, and other factors such as gas storage, the pricing of units of energy in the future will be competitive. While one energy commodity may have temporary advantage over another in the longer term we would expect an averaging to occur.

At present the price of Canadian gas is being depressed disproportionately against U.S. gas because of large storage and limited pipeline capacity to U.S. markets. We view this as a temporary phenomenon and thus consider development of reserves economic at today's prices to be a sound investment, and an opportunity to develop value for the future.

Our objective in 1995-96 is to build Petrobank to, and beyond, the threshold level of a junior oil and gas company into the ranks of a significant independent.

We appreciate the dedication and support of everyone associated with the Company and especially the continuing support of our shareholders.

March 29, 1995
Calgary, Alberta



James D. Tocher
Chairman and President

OPERATIONS OVERVIEW

PETROBANK FOCUS AREAS

1994/95

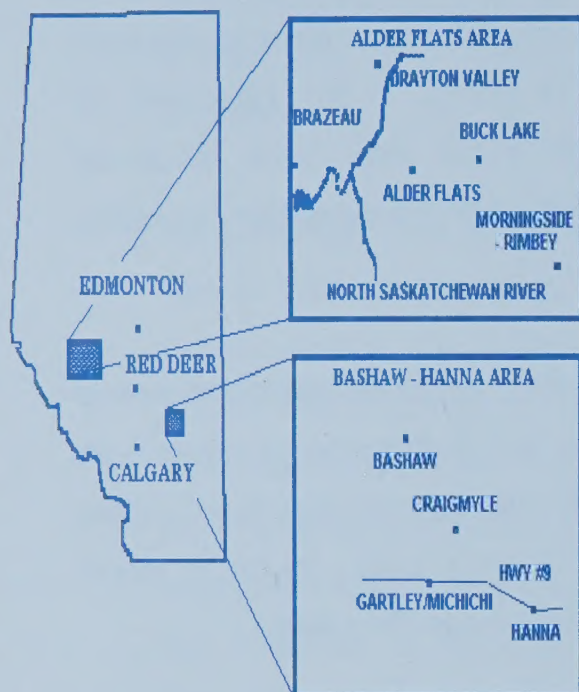


FIGURE 1

MANAGEMENT'S OBJECTIVES

Management's principal strategy in delivering shareholder value is to apply Petrobank's capital, resources and expertise in two complimentary business areas. These are:

- land acquisition and well drilling programs incurred at higher risk and potential return;
- acquisition, completion and farmin programs undertaken at lower risk and return focused on providing immediate cash flow to the Company.

PRODUCTION RESULTS TO APRIL 1995

Petrobank's major transaction, completed in August of 1994, required the Company to test, and if justified, complete and place on production three cased wells, two for gas and one for oil. In reference to Figure 1 above, the candidate gas wells were located in the Bashaw-Hanna area of central Alberta near Gartley and Craigmyle. This initial program yielded two, non operated dual zone gas wells presently producing 750 Mcf/d (165 Mcf/d net) to a long term, strongly priced sales contract,

with additional proved non producing gas reserves tested in both wells but not yet in production. At Morningside, the Company completed a Basal Quartz oil well that is presently producing approximately 6 barrels of oil per day (1.4 bbl/d net).

At year end the Company acquired a cased well near Bashaw, Alberta. This well was recompleted, stimulated and tested natural gas at 600 Mcf/d (200 Mcf/d net). The well is operated by Petrobank and is presently on production for extended deliverability testing and reserve determination prior to negotiation of a long term gas contract.

EXPLORATORY DRILLING, LAND ACQUISITION AND DEVELOPMENT

Petrobank has operated and drilled two exploratory wells during the first quarter of 1995, resulting in one cased gas well at Alder Flats and one dry hole at Rimbey. The Company has prepared a second drilling location at Alder Flats and will operate and drill a third well during the second quarter of 1995, offsetting the cased well drilled previously. The Company's interest in the Alder Flats area is 16.67%.

As a result of land acquisition and farmin agreements negotiated prior to the drilling of the Rimbey well, Petrobank and participating partners acquired up to 85% interest in approximately 1500 gross hectares of land in the Rimbey - Morningside area. In reviewing results of the Rimbey well and considering an unsolicited purchase offer for lands earned at Rimbey - Morningside, it was management's decision to divest all interests in this area for re-investment in higher priority areas.

FINANCIALS

AUDITORS' REPORT

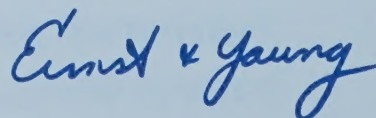
To the Shareholders of
Petrobank Energy and Resources Ltd.

We have audited the balance sheets of Petrobank Energy and Resources Ltd. as at December 31, 1994 and 1993 and the statements of loss and deficit and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

Calgary, Canada
March 2, 1995



Chartered Accountants

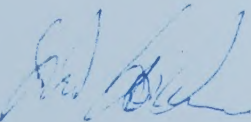
BALANCE SHEETS

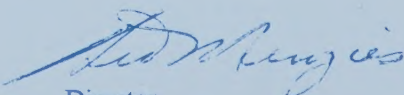
As at December 31

	1994 \$	1993 \$
ASSETS		
Current		
Cash	399,021	69,955
Accounts receivable	6,027	5,143
	<u>405,048</u>	<u>75,098</u>
Fixed assets [note 3]		
Property and equipment	683,189	—
Other assets	7,887	—
	<u>691,076</u>	<u>—</u>
	<u>1,096,124</u>	<u>75,098</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable [note 5]	97,231	—
Shareholders' equity		
Share capital [note 4]	1,143,449	75,098
Deficit	(144,556)	—
	<u>998,893</u>	<u>—</u>
	<u>1,096,124</u>	<u>75,098</u>

See accompanying notes

Approved by the Board:


 Director


 Director

STATEMENTS OF LOSS AND DEFICIT

For the years ended December 31

	1994 \$	1993 \$
Revenues		
Oil and gas	5,866	—
Royalties	(744)	—
	<u>5,122</u>	<u>—</u>
Interest income	6,223	—
	<u>11,345</u>	<u>—</u>
Expenses		
Production	7,376	—
General and administrative	148,525	—
	<u>155,901</u>	<u>—</u>
Net loss for the year and deficit end of the year	<u>(144,556)</u>	<u>—</u>
 Loss per common share	 <u>(0.01)</u>	 <u>—</u>

See accompanying notes

STATEMENTS OF CASH FLOWS

For the years ended December 31

	1994 \$	1993 \$
CASH WAS PROVIDED BY (USED FOR):		
Operating activities		
Net loss for the year	(144,556)	—
Net change in non-cash working capital related to operating activities	45,372	(5,143)
	(99,184)	(5,143)
Financing activities		
Proceeds from issuance of common shares	1,200,051	75,098
Share issue costs	(131,700)	—
	1,068,351	75,098
Investing activities		
Property and equipment	(683,189)	—
Other assets	(7,887)	—
Net change in non-cash working capital related to investing activities	50,975	—
	(640,101)	—
Increase in cash	329,066	69,955
Cash, beginning of year	69,955	—
Cash, end of year	399,021	69,955

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 1994

1. INCORPORATION AND MAJOR TRANSACTION

The Company was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on December 1, 1983. By Articles of Amendment dated September 8, 1986, the Company's name was changed to Petrobank Energy and Resources Ltd. By Articles of Amendment dated September 8, 1993 the private company restrictions were removed.

During the year the Company completed its Major Transaction as required by the Junior Capital Pool Policy guidelines as issued by the Alberta Securities Commission and The Alberta Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

The Company follows the full cost method of accounting for its petroleum and natural gas properties. All costs related to the exploration for and development of petroleum and natural gas reserves, whether productive or non-productive, are capitalized in one Canadian cost centre and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical costs, lease rentals on undeveloped properties and drilling costs of both productive and non-productive wells.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more as a result of the disposition.

Depletion is provided using the composite unit of production method based on proven petroleum and natural gas reserves before royalties as determined by independent consulting engineers. For the purpose of this calculation, reserves and production of oil and natural gas liquids are converted to equivalent units of oil based on relative energy content.

The estimated cost of site restoration is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration costs are accrued on a unit of production basis based on proven reserves. The provision is recorded on the statement of operations as depletion and depreciation and on the balance sheet as a long term liability. Where expenditures are made to restore a property, the accumulated provision is charged with these expenditures.

NOTES TO FINANCIAL STATEMENTS

December 31, 1994

The carrying value of the Company's petroleum and natural gas properties, net of deferred income taxes and site restoration provision is limited to an ultimate recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future estimated general and administrative costs, financing costs, the estimate of future site restoration costs and income taxes. Future net revenues are estimated using year end prices and costs without escalation or discounting and the income tax and Alberta royalty tax credit legislation in effect at the year end.

As there were no significant operations during the year, depreciation and depletion were not considered material and subsequently not recorded.

Other assets

Other assets comprising of furniture, fixtures and office equipment are recorded at cost and depreciated on the declining balance method at 20% to 30% per annum.

Joint venture accounting

All of the exploration and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax regulation. The appropriate property and share capital accounts are reduced by the estimated amount of the income taxes related to expenditures made during the period.

Loss per share

The loss per share has been calculated using the weighted average number of common shares outstanding during the period. Fully diluted loss per share has not been presented because there is no material difference from the basic loss per share.

NOTES TO FINANCIAL STATEMENTS

December 31, 1994

3. FIXED ASSETS

	\$
Property and equipment	
Petroleum and natural gas properties	655,519
Production and gathering facilities	27,670
	<u>683,189</u>
Other assets	
Office equipment	5,092
Furniture and fixtures	2,795
	<u>7,887</u>

No general and administrative expenses were capitalized during the year.

4. SHARE CAPITAL

Authorized

Unlimited number of common voting shares.
Unlimited number of preferred shares issuable in series.

Issued

	Number	Consideration \$
Common shares		
Balance, December 31, 1993	3,000,000	75,098
Issued for cash pursuant to public offering, net of share issue costs of \$72,621	3,500,000	277,379
Issued for cash pursuant to private placements, net of share issue costs of \$44,723	2,620,208	610,328
Issued for cash pursuant to exercise of stock option	100,000	10,000
Issued for cash pursuant to flow-through share agreement, net of share issue costs of \$14,356	616,666	170,644
Balance, December 31, 1994	<u>9,836,874</u>	<u>1,143,449</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 1994

On December 7, 1994 the Company issued 616,666 flow through shares for gross proceeds of \$185,000 which require the Company to renounce \$185,000 of its expenditures on petroleum and natural gas properties by February 28, 1995. At December 31, 1994, there were no expenditures renounced.

Stock options outstanding	Exercise Price	
	Number	\$
Balance, December 31, 1993	525,000	0.10
Granted pursuant to public offering	350,000	0.10
Exercised	(100,000)	
Granted pursuant to private placement	97,000	0.25
Granted pursuant to services performed	250,000	0.23
Balance, December 31, 1994	<u>1,122,000</u>	

The options expire between August 10, 1995 and October 28, 1999.

Warrants

There were 308,333 warrants issued pursuant to the flow-through share agreements. Each warrant entitles the holder to acquire one common share at a price of \$.40 per share. The warrants expire June 21, 1996.

5. RELATED PARTY TRANSACTIONS

The Company paid the following amounts to a company controlled by an officer and director:

Rent	\$20,400
Fees for office services	\$12,000
Fee paid for assisting in the acquisition of petroleum and natural gas properties	\$50,000

Accounts payable includes an amount of \$50,976 payable to this related party.

6. INCOME TAXES

At December 31, 1994, the Company had non-capital losses of \$218,693 available for income tax purposes which may be utilized against future taxable income. If unused, these losses will expire in the year 2001. No recognition has been given in these financial statements to any potential tax savings which may result from these losses.

NOTES TO FINANCIAL STATEMENTS

December 31, 1994

7. SUBSEQUENT EVENT

On January 9, 1995, the Company entered into a gas sales agreement to forward sell 833,333 gigajoules of natural gas over a 10 year period commencing January 1, 1996 for \$500,000. There was \$33,333 paid at the time of the agreement. The purchaser has also agreed to fund the development of certain gas properties as further payment under the forward sale.

The consideration received under the forward sales agreement will be deferred and recognized as revenue over the period of gas deliveries.

The Company has assigned its interest in the natural gas reserves of certain natural gas properties as security for the delivery of gas under the forward sale.

In addition, the purchaser has agreed to purchase over the same ten year period an equivalent quantity of natural gas at a predetermined price. The purchaser has a right of first refusal on production in excess of these volumes.

OFFICERS

JAMES D. TOCHER, PRESIDENT, CHAIRMAN AND CHIEF OPERATING OFFICER

Jim brings to Petrobank over 40 years of management experience with major and independent oil and gas companies, both in Canada and the United States. Beginning his career in land management at Imperial Oil in 1952, Mr. Tocher became executive vice president of King Resources Inc. in 1966 and later the founder and president of International Resources Ltd., a company with operations in over 20 countries world wide. In 1973 he and Mr. J. L. Oaks founded Taiga Energy Inc., a company specializing in the development of gas properties in the United States. Taiga was sold in 1978 to a Canadian public company. Since then he has founded two private oil and gas companies, one Canadian, one American and a public mining company, International Curator. Currently he is the chairman of International Curator, director of Champion Resources Inc. and co-founder and chairman of VX Optronics Corp, a company developing optoelectronic products.

JERALD L. OAKS, VICE-PRESIDENT

Jerry has 38 years of drilling, completions and operational experience beginning at Phillips Petroleum Company where he served for eleven years in many diverse managerial positions. In 1980 he became co-founder and President of Petrobank Operating Company in Denver, which holds interests in over 200 wells in central Colorado and Pennsylvania. He has continued in this position.

BERNARD T. GALLANT, VICE-PRESIDENT, EXPLORATION

Bernie's 39 years of geologic and management expertise began at Imperial Oil Ltd. in its western Canadian operations. As Vice-President of Exploration for Pan Ocean Ltd., he supervised a large team of exploration geologists developing plays in Canada, the U.S., Ireland, the Dominican Republic, Columbia, Niger and Australia. In 1985, Mr. Gallant established a consulting practice and private oil and gas company, Trove Resources Ltd., a position he held until joining Petrobank in 1994.

BRUCE S. SMITH, VICE-PRESIDENT ENGINEERING & PRODUCTION

Bruce's 20 years of experience in process and petroleum engineering began with Cominco Ltd. working as a mechanical and senior project engineer. In his 11 years with Dome, and later Amoco, he was drilling supervisor - Beaufort Sea Division, field supervisor and stimulation specialist - Drilling and Completions and Technical Coordinator - central U.S. and International operations, Tulsa Oklahoma. Returning to Canada in 1991, he founded and was President of Consulting Engineering Services, a petroleum engineering consulting firm working principally for junior oil and gas companies in Alberta. Bruce joined Petrobank in September of 1994.

SOLVEIG KUBBERNUS, CORPORATE SECRETARY & TREASURER

Solveig is Administrative Assistant to James Tocher. She has been with the Company since it's inception.

MICHAEL J. KRUEGER, ASSISTANT SECRETARY

Michael is one of the founding shareholders of the Company and is employed with the legal firm of Sharpe & Krueger in Kingsville, Texas. Mr. Krueger was admitted to the Wisconsin Bar in 1978 and the Texas Bar in 1979. He is a member of the American Bar Association.

HEAD OFFICE

Suite 1605, 777 - 8th Ave. S.W.
Calgary, Alberta T2P 3R5
Tel: (403) 233-8580
Fax: (403) 233-2249

TRANSFER AGENT

Montreal Trust Company
411 - 8th Avenue S.W.
Calgary, Alberta T2P 1E7

SOLICITORS

Parlee McLaws
Suite 3400, 707 - 8th Ave. S.W.
Calgary, Alberta T2P 1H5

BANKERS

Bank of Montreal
635 - 8th Avenue S.W.
Calgary, Alberta T2P 3S5

AUDITORS

Ernst & Young
Suite 1300, 707 - 7th Avenue S.W.
Calgary, Alberta T2P 3S5

DIRECTORS

*James D. Tocher **
President,
Petrobank Energy & Resources
Ltd.
Calgary, Alberta, Canada

Jerald L. Oaks
President,
Oaks Resources Management,
Inc.,
Denver, Colorado, USA.

*Louis L. Frank **
Independent Businessman &
Venture Capitalist,
North Woodstock, NH, USA

*Arthur W. Menzies **
President,
ARDO Resources Ltd.,
Calgary Alberta, Canada

* Members of the Audit
Committee

EXCHANGE LISTING

The Alberta Stock Exchange
Stock Symbol: PBG

NOTES

